

**SECTION 5**  
**CHAPTER 4**  
**FINANCIAL STATEMENT AUDITS**

The CFO Act of 1990 (Public Law 101-576), directs that each federal agency shall prepare and submit to the OMB, a financial statement for the preceding fiscal year, covering:

- Each revolving fund and trust fund of the agency; and,
- To the extent practicable, the accounts of each office, bureau, and activity of the agency which performed substantial commercial functions during the preceding fiscal year.

The CFO Act further specifies that each financial statement of an executive agency shall reflect:

- (1) The overall financial position of the revolving funds, trust funds, offices, bureaus, and activities covered by the statement, including assets and liabilities thereof;
- (2) Results of operations of those revolving funds, trust funds, offices, bureaus, and activities;
- (3) Cash flows or changes in financial position of those revolving funds, trust funds, offices, bureaus, and activities; and
- (4) A reconciliation to budget reports of the executive agency for those revolving funds, trust funds, offices, bureaus, and activities.

**Preparation of Financial Statements**

Financial statements for the Department and the bureaus will be prepared and audited on an annual basis. Final financial statements, including the auditor's opinion on the financial statements, will be issued within 45 days of year end (November 15). If the financial statements for the Department cannot be completed by the statutory due date, the Department will provide OMB with a written explanation of the reason for the delay and the expected date of completion.

The financial statements will be prepared in compliance with OMB's "Form and Content of Agency Financial Statements" (OMB Bulletin No. 01-09 or its successor documents).

**Audit Opinion on Financial Statements**

The audit opinions will be issued in compliance with OMB Circular A-136, Financial Reporting Requirements." The audit opinion will include the following:

- (1) An opinion as to whether the reporting entity's Principal Statements and Required Supplementary Information is fairly presented in all material respects, in conformity with Federal Accounting Standards;
- (2) A report on internal controls; and
- (3) A report on the reporting entities compliance with applicable laws, regulations, and governmentwide policy requirements.

## **Reporting Entity Responses to Audit Opinion Findings**

As required by OMB's audit guidance, the reporting entity shall provide comments on the auditor's findings and recommendations included in the audit report, including corrective actions taken or planned and comments on the status of corrective actions taken or planned and comments on the status of corrective action taken on prior findings. To the extent practical, these comments shall be included in the audit report on internal controls or report on compliance. Departmental response to audit findings shall be provided to the Office of Inspector General within 14 calendar days of the issuance of the draft report to allow for the timely publication of the audited financial statements, but no later than December (specific dates provided in Annual Guidance document).

## **Correction of Material Weaknesses and Reportable Conditions**

Material weaknesses, reportable conditions reported in the auditors opinion, internal control deficiencies, and/or noncompliance issues audit recommendations will be tracked in the Department Audit Follow-Up Tracking system in a similar manner as other OIG and GAO audit recommendations. Corrective action plans with appropriate interim milestones and target dates will be developed by Bureau Chief Financial Officers, ALOs and other cognizant offices, and updated on a regular basis. The audited entity should seek to complete corrective action plans before the next annual financial statement audit. The Department will monitor implementation progress to ensure completion of corrective actions by original target dates.

Specific requirements for corrective action plans are detailed in "Corrective Action Plan Contents."

## **Non-Compliance with Federal Financial Management Improvement Act (FFMIA)**

The Department will comply with policies and guidance on reporting of FFMIA non-compliance. Required corrective action plans related to FFMIA non-compliance will be provided to OMB, as required. The Department will use the Audit Follow-Up Tracking System and implementation progress information to monitor corrective action plans to bring the Department or individual bureaus into compliance with the FFMIA.

## **Corrective Action Plans Contents**

To ensure results, corrective action plans must adhere to the following framework:

1. Summary Description of the Deficiency – Provides a summary description of the deficiency.
2. Year First Identified – Lists the first year that the deficiency was identified.
3. Target Correction Date – Unless adequately justified, all material weaknesses and noncompliance issues must be corrected within one year. To ensure that deficiencies are corrected prior to the beginning of the next year's audit process, final correction of the deficiency should end June 30 to allow sufficient time for testing to ensure that the material weakness/noncompliance issue has been

- corrected. Extensions beyond the June 30 deadline may be granted by PFM, but IT security weaknesses must be completed by June 30.
4. Accountable Official – Senior manager(s) in charge of the program where the weakness or noncompliance issue was identified (including field office and/or headquarters, if applicable);
  5. Summary of Corrective Actions – Lists specific actions/milestones and targeted dates by fiscal quarter in ascending order, and total resources associated with and committed to each milestone. As each specific milestone is completed, list the correction date, and where appropriate, the location of the supporting documentation for review upon request by PFM, OIG, or the independent auditor.
  6. Funding – Must be set aside (tied to the budget), and must be sufficient to completely correct the weakness or noncompliance issue. For deficiencies requiring multi-year corrective action plans, costs for each year must be identified in the plan and in the bureau/office budget. Funding may not be moved to other priorities.
  7. Quarterly Corrective Action Milestones – A comprehensive listing of specified actions/milestones and targeted completion dates by fiscal quarter in ascending order, and the total resources associated with and committed to each action/milestone. As each specific milestone is completed, list the correction date, and where appropriate, the location of the supporting documentation for review upon request by PFM, the OIG, or the independent auditors.
  8. Metrics – Should be developed to measure the progress in completing the corrective action. Metrics should also be developed that demonstrate that the actions taken actually remedied the weakness/noncompliance.

The required format for submission of the Corrective Action Plan is Addendum A.

**NOTE:** Corrective Action Plans for IT security issues must agree with what is submitted for the POA&Ms (discussed in section 3). The same actions, funding, dates, etc., must be evident in both the Corrective Action Plan and the POA&M!

### **Reporting on Material Weaknesses and Noncompliance Issues**

The PFM currently requires monthly status reports on the correction of all material weakness and noncompliance issues identified in the financial statement audit. If a bureau/office reports consistently on time and is achieving a green status, PFM may approve quarterly reporting.

The first report on the status of the material/noncompliance issue is due to PFM 30 calendar days after the issuance of the final audit report. Beginning in January 30 (or the last work day of the month) and each end of month thereafter, a report on the status of the CAP is due to PFM. The status report should indicate if the CAP is on schedule, which milestones are completed, and which, if any, have been delayed. If delays have occurred in the completion of monthly milestones, a brief explanation for the delay, whether the delay impacts the bureau/office ability to meet the final deadline, how the bureau/office expects to get back on track, and the revised correction date should be noted.

PFM will summarize the CAP information in a scorecard format and provide an advance copy for comment to each bureau CFO. Bureaus have one day to offer any comments. The scorecard will then be forwarded to the Assistant Secretary – PMB.

### **Status Reports on OIG and GAO Audit Recommendation Implementation Not Contained in the Financial Statement Audits**

In order to ensure the timely completion of corrective actions for all recommendations contained in audits prepared by the OIG and GAO, a report should be provided to PFM on a monthly basis. This monthly report will include the status of ALL open audit recommendations for ALL audits currently in tracking and/or resolution. If delays have occurred in implementing audit recommendations, a concise statement of the reasons for the delay along with a revised target date must be provided.

If a bureau/office reports consistently on time and is achieving a green status, PFM may approve quarterly reporting

**NOTE: The progress reports for FMFIA material weaknesses, audited financial statement material weaknesses, noncompliance issues, as well as other recommendations contained in the audited financial statement audits are to be submitted to PFM monthly.**

Based on the progress information provided by the bureaus, PFM will prepare a summary scorecard for the Assistant Secretary - PMB, with an information copy to each bureau ICC and Audit Liaison Officer. The information in these reports will be used to determine bureau status in accomplishing the GPRA goal for audit recommendation implementation.

### **Validation of the Completion of Material Weakness Corrective Action Plans**

As in previous years, bureaus must verify the completion of material weakness corrective action plans. Documentation for the correction of noncompliance issues and FMFIA weaknesses should also be verified, maintained, and made available upon request. Bureaus will be expected to maintain appropriate supporting documentation for each corrective action plan in a central location for subsequent review and validation by the Department and/or OIG staff. Retention of records is dependent on individual records retention schedules.

### **Mid-year and Year End Progress Meeting**

Bureaus/offices are required to participate in a mid-year and year-end progress meeting with PFM, PMB, and OIG; these meetings are usually held in May and October, respectively. The purpose of the meetings is to review program status and discuss and resolve other pertinent audit follow-up issues. Additional progress meetings will be scheduled as necessary by PFM. A senior management official with the authority to make decisions regarding policy issues that affect audit recommendations should be in attendance. It is recommended that individuals designated with the responsibility to correct material weaknesses/noncompliance issues attend these meetings.